

Message Text

LIMITED OFFICIAL USE

PAGE 01 BERN 03745 071240Z
ACTION EB-04

INFO OCT-01 ISO-00 SS-04 EUR-03 NSC-04 TRSE-00 CEA-01
FRB-03 INR-01 CIAE-00 /021 W
-----120266 072105Z /70

R 071020Z AUG 78
FM AMEMBASSY BERN
TO SECSTATE WASHDC 6679
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY PARIS

LIMITED OFFICIAL USE BERN 3745

LIMDIS GREENBACK

USEEC

PASS TREAS & FRB

EO 11652: NA
TAGS: EFIN, SZ
SUBJ: SND PRES LEUTWILER ON SF & MONETARY PROBLEMS

1. SUMMARY: SNB PRES LEUTWILER IS UNDERSTANDABLY CONCERNED ABOUT CONTINUING APPRECIATION OF SF TO WHICH HE CAN SEE NO IMMEDIATE END. HE ATTRIBUTES UNDUE APPRECIATION TO LACK OF CREDIBILITY IN US DETERMINATION TO FIGHT INFLATION AND TO BELIEF THAT BREMEN SUMMIT IS PRECURSOR OF LESS "CONSERVATIVE" POLICY IN THE FRG. LEUTWILER IS NEGATIVE ON SWISS ASSOCIATION WITH EUROPEAN MONETARY UNION. IN SWISS GOVT CIRCLES THERE IS MORE CONFIDENCE IN FRG POLICY, BUT PARALLELED DOUBTS ON EMU. END SUMMARY.

2. DURING CALL ON SWISS NATL BANK PRES LEUTWILER
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 BERN 03745 071240Z

AUG 3, LEUTWILER WAS OBVIOUSLY UNHAPPY THAT SF HAD REACHED NEW HIGH ON MARKETS. HE WAS UNABLE TO PREDICT HOW FAR IT WOULD GO; SAW NO PANACEA IN MARKET INTERVENTION. LEUTWILER FEARED THAT ONLY ALTERNATIVE WOULD BE TO RELAX SWISS MONETARY POLICY AND ACCEPT INFLATION. ALTHOUGH SWISS ECONOMY HAD SHOWN GREAT ABILITY TO ADJUST TO COMPETITION IN SPITE OF RISING

SF, JAPANESE WOULD FIND IT HARDER.

3. LEUTWILER ATTRIBUTED THE STRENGTHENING SF PARTLY TO LACK OF CREDIBILITY IN US COMMITMENT TO DEAL WITH INFLATION. BONN SUMMIT, HE THOUGHT, HAD BEEN NEUTRAL AS FAR AS MONETARY IMPACT. BREMENT SUMMIT, ON OTHER HAND, HAD LED TO FEARS THAT SCHMIDT AND GERMANS WOULD BE LURED DOWN ROAD OF EXPANSION AND INFLATION WITH A RESULTANT WEAKENED DM. THIS LEFT THE SF AS ONLY RELIABLE CURRENCY. LEUTWILER SAID ONLY NEGATIVE STATEMENTS WERE CREDIBLE, POINTING TO OVER-REACTION TO HIS RECENT PUBLIC STATEMENTS PREDICTING FURTHER SF APPRECIATION IN CONTRAST TO DISREGARD BY MARKET OF STATEMENTS THAT "DOLLAR IS CLEARLY UNDER-VALUED".

4. I POINTED OUT INFLATION PRESSURE COULD NOT BE TACKLED TOO ABRUPTLY; LEUTWILER ADMITTED SWISS HAD HAD BENEFIT OF HIGH FOREIGN WORK FORCE WHICH COULD BE WHITTLED DOWN. THIS WAS NO LONGER A REAL POLITICAL ISSUE AND TOURIST INDUSTRY ACTUALLY CRYING FOR MORE LABOR. HE THOUGHT HIGHLY OF WHAT FRB CHAIRMAN WAS SAYING BUT WANTED TO SEE RESULTS. HE FEARED MANY KNOW WHAT SHOULD BE DONE, BUT REFUSE DO IT FOR POLITICAL REASONS.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 BERN 03745 071240Z

5. AS TO SCHMIDT/GISCARD PROPOSALS FOR MONETARY UNION, HE RECALLED FRENCH HAD REJECTED EARLIER SWISS PARTICIPATION IN MONETARY SNAKE. HE DID NOT KNOW WHAT FRENCH ATTITUDE WOULD BE TODAY. HE DOUBTED IT WOULD BE POLITICALLY POSSIBLE FOR SWISS TO JOIN THE SNAKE AS AN ASSOCIATE AND THUS BECOME A PARTY TO THE ARRANGEMENT WITHOUT HAVING ANY SAY IN ITS OPERATION.

6. IN RESPONSE TO SUGGESTION THAT REMAINING OUT MIGHT ALSO RESULT IN SF BEING DRAGGED ALONG WITHOUT PARTICIPATION, LEUTWILER THOUGHT BEST OF TWO UNDESIRABLE ALTERNATIVES WOULD BE FOR SWITZERLAND TO REMAIN OUTSIDE. HE REFERRED TO LACK OF UNANIMITY WITHIN FRG ON THE SUBJECT, PARTICULARLY TO PROBLEMS OF THE BUNDESBANK.

7. IN CONVERSATIONS WITH SWISS GOVT OFFICIALS, LEUTWILER'S RECENT STATEMENT ON APPRECIATION OF SF IS BLAMED FOR SOME OF THE TROUBLE. OFFICIALS ALSO DOUBT WHETHER THE SCHMIDT PROPOSALS WOULD LEAD TO ANYTHING. IN THE FED POLITICAL DEPT, THERE ARE FEWER

FEARS CONCERNING THE LIKELIHOOD THE FRG WILL BE LURED
INTO AN "IRRESPONSIBLE" POLICY. AMB JACOBI, DIV OF
COMMERCE, SEES SCHMIDT "PACKAGE" AS POSITIVE RESULT
OF BONN SUMMIT. THERE IS, HOWEVER, QUESTION IN
SWISS CIRCLES AS TO WHETHER THE FRENCH WOULD BE
ABLE TO HOLD THE LINE. IT IS FEARED THAT THE FRENCH
WOULD RATHER ACCEPT 10 PCT INFLATION THAN UNEMPLOYMENT.
CROWLEY

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: LOANS, GOVERNMENT DEBTS
Control Number: n/a
Copy: SINGLE
Draft Date: 07 aug 1978
Decaption Date: 20 Mar 2014
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978BERN03745
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780323-0328
Format: TEL
From: BERN USEEC
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780889/aaaacwuh.tel
Line Count: 124
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 26350467-c288-dd11-92da-001cc4696bcc
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: LIMDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: LIMDIS
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1810194
Secure: OPEN
Status: NATIVE
Subject: SND PRES LEUTWILER ON SF & MONETARY PROBLEMS
TAGS: EFIN, SZ, (LEUTWILER, FRITZ)
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/26350467-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014